

# PV Nhon Trach 2 (NT2)

Stable cash flow and attractive dividend payout

February 27, 2023

Analyst Nguyen Dinh Thuan  
thuannd@kbsec.com.vn

## NT2's profit and revenue recorded growth in 2022

PV Nhon Trach 2's (NT2) 2022 NPAT hit VND729 billion (156% of the year target) on revenue of VND8,786 billion (+42.9% YoY). Saleable energy is 4,065 million kWh (+27.2% YoY), 85% of which is contract output (Qc), equal to 3473.23 million kWh. Positive growth is attributable to the recovery of demand in the Southern region.

## Unfavorable water conditions may benefit thermal power

It is forecast that the weather will no longer be favorable for hydroelectricity in 2023, which will give more opportunities to thermal power, especially gas-fired power plants with lower emissions than coal power. We believe that NT2 will be prioritized for mobilization in the near future thanks to its advantage of location. However, NT2 has an overhaul plan lasting for 100,000 hours, and the plant may have to be suspended for more than 40 days. NT2's 2023 output should still reach 3,859 million kWh (-5.1% YoY) thanks to high demand.

## NT2 stocks produce high dividend yield and are less affected by exchange rate differences

NT2's abundant operating cash flow and the completion of long-term debt obligations in 2021 helped NT2 not much affected by fluctuations in exchange rate differences and interest rates as other power plants. We expect NT2 to continue to pay a high cash dividend for 2023. NT2's parent company, PV Power, is implementing Nhon Trach 3 and Nhon Trach 4 LNG projects with total investment of over VND30,000 billion in the period of 2022-2024. This should help NT2 raise its dividend payout ratio.

## HOLD recommendation with the target price of VND31,200/share

Based on FCFF and EV/EBITDA valuation, business outlook and possible risks, we recommend HOLD for NT2 with the target price of VND31,200 per share.

## Hold update

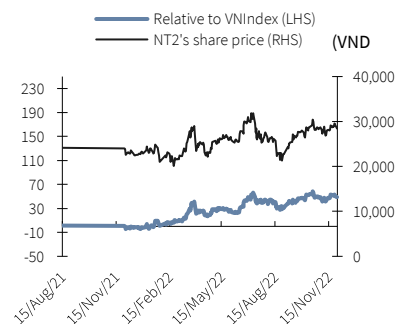
<b>Target price</b>	<b>VND31,200</b>
Upside/Downside	10%
Current price (Feb 27, 2023)	VND28,400
Consensus target price	VND30,780
Market cap (VNDbn)	8,175.7

<b>Trading data</b>	
Free float	30%
3M avg trading value (VNDbn)	18.15
Foreign ownership	16.27%
Major shareholder	PV Power (59.4%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	1	33	8	19
<b>Relative</b>	2	18	25	49

### Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Revenue (VNDbn)	6,150	8,786	7,998	8,258
EBIT (VNDbn)	595	771	780	807
NPATMI (VNDbn)	534	729	731	737
EPS (VND)	1,778	2,457	2,539	2,560
EPS growth (%)	-15.1	38.2	3.0	1.0
P/E (x)	14.2	11.8	12.3	12.2
EV/EBITDA (x)	5.8	5.9	5.7	5.2
P/B (x)	1.7	1.9	2.7	2.9
ROE (%)	12.6	16.4	17.2	18.3
Dividend yield (%)	7.9	8.7	9.6	11.2



Source: Bloomberg, KB Securities Vietnam

## Business operation

**4Q22 revenue increased by 17.7% YoY while NPAT decreased by 95% YoY**

NT2's 4Q22 revenue increased to VND1,923.13 billion (+17.7% YoY), but NPAT decreased to VND5.76 billion (-95% YoY). Saleable output reached 992.1 million kWh (+20% YoY) thanks to better demand than in 4Q21.

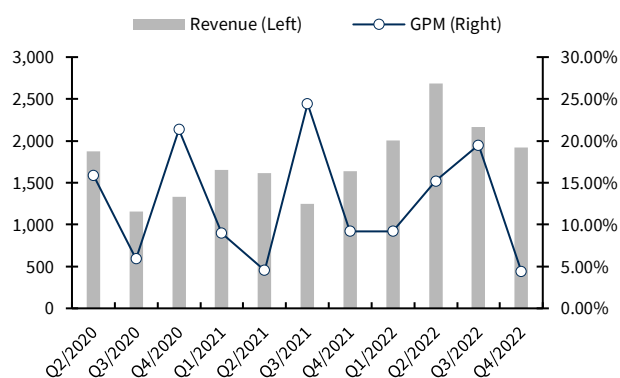
The contraction in 4Q22 NPAT came from the low allocation Qc. Gross profit margin (GPM) declined as input gas prices remained high. The increase in selling and administrative expenses was mainly related to the provision for VND240 billion in doubtful debts from the purchase agreement with EPTC.

**However, NT2's 2022 revenue and NPAT both increased over the same period**

NT2's 2022 net revenue reached VND8,786 billion (+42.9% YoY), and NPAT was VND729 billion, equivalent to 156% of the full-year target. The revenue growth is driven by (1) high gas input prices, which also raised electricity costs and sales, and (2) high electricity prices on the competitive generation market (CGM), reaching VND1,530/kWh (+52% YoY). This is a positive factor that helps push NT2's GPM to 12.53%. In addition, in 3Q22, NT2 recorded an exchange loss of VND340 billion out of VND420 billion in exchange rate difference between 2016 and 2021.

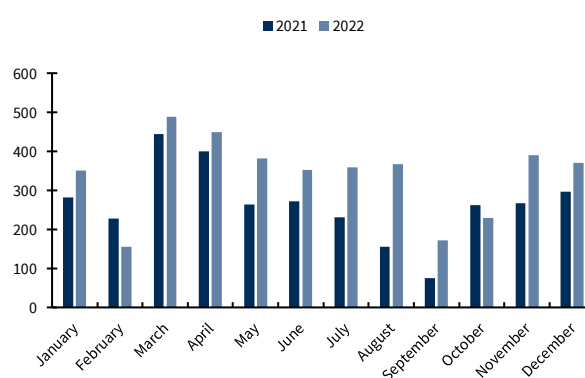
Full-year accumulated saleable energy reached 4,065 million kWh (+27.2% YoY). Qc output hit 3,473.23 million kWh, accounting for 85% of the plant's total saleable output. Strong output growth is attributable to the recovery of demand in the South.

Fig 1. NT2 – NPAT & revenue (VNDbn)



Source: PV Nhon Trach 2, KB Securities Vietnam

Fig 2. NT2 – Saleable energy (million kWh)



Source: PV Nhon Trach 2, KB Securities Vietnam

Table 1. NT2 – 2021–2022 business results

VND bn	2021	2022	YoY %	Note
Output (mil. kWh)	<b>3,195</b>	<b>4,065</b>	<b>27.2%</b>	
Contractual output (Qc)	3,195	3,473	8.7%	In 2021, NT2 only operated according to the assigned contractual output, did not generate electricity on the CGM.
Output sold on the CGM (Qm)	0	592	N/A	
Average gas price (USD/MMBTU)	<b>7.89</b>	<b>9.34</b>	<b>18.38%</b>	Gas prices increased due to Brent oil price surge in 2022.
Average selling price (VND/kWh)	<b>1,924.75</b>	<b>2,161.38</b>	<b>12.3%</b>	Average selling price increased thanks to favorable price movements on the CGM.
Revenue (billion VND)	<b>6,149.6</b>	<b>8,786</b>	<b>42.9%</b>	The increase in revenue was mainly due to high gas prices, which led to an increase in the average selling price of both PPA and CGM contracts due to NT2's effective bidding strategy. In addition, NT2 said that it has recorded 340 billion VND in exchange rate compensation from EVN in Q3/2022.
Gross profit	<b>675.82</b>	<b>1,101</b>	<b>63%</b>	
GPM (%)	<b>11%</b>	<b>12.53%</b>		Gross profit margin improved thanks to high Qc in total output and higher CGM price
SG&A	83	330		NT2 made provision for bad debts of VND240 billion from EVN
% SG&A / Revenue	1.3%	3.8%		
Profit from operating activities	593	771		
Financial income	18	24		
Financial expenses	52	18		Financial expenses were significantly reduced thanks to NT2 repaying long-term debts in 2Q2021.
Other net income	8.27	1.15		
Profit before taxes	<b>565.8</b>	<b>779</b>		
Profit after taxes	<b>533.79</b>	<b>729.32</b>		
NPM (%)	8.7%	8.3%		

Source: PV Nhon Trach 2, KB Securities Vietnam

### The demand for electricity consumption should increase in line with the economic development

KBSV expects the demand for electricity to increase in the coming years to serve economic development. According to the draft Master Power Plan 8, the national saleable energy growth is forecasted to average 9.09% for the 2021–2025 period and 7.95% for the 2026–2030 period in the base scenario. Increased demand will be a driving factor for the power industry as plants will be mobilized with higher capacity. Hydroelectricity and renewable energy projects will heavily depend on the weather. Therefore, thermal power may still be the key source of power in the coming time.

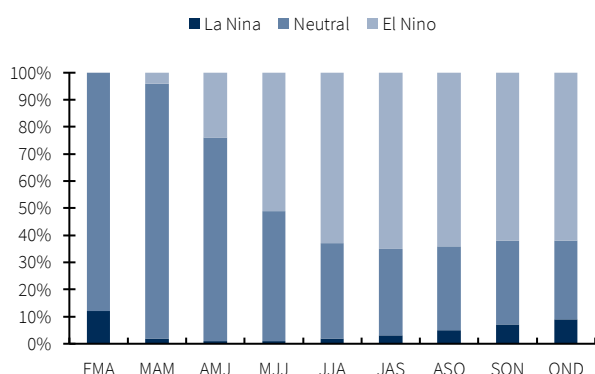
The Southern region has the largest demand for electricity in the country, accounting for 47% of electricity consumption in 2022. NT2 plant has a favorable location in the economic triangle of Ho Chi Minh City – Dong Nai – Ba Ria Vung Tau, and it is close to large power consuming areas. This helps to minimize power loss in transmission lines. Therefore, NT2 should be prioritized for power generation when the load demand increases in the near future.

### Unfavorable water conditions give move opportunities to thermal power plants

According to the forecast of the International Research Institute for Society and Climate (IRI) and the National Centre for Hydro – Meteorological Forecasting, in 2023, the probability of El Nino occurrence will increase, especially above threshold of 50% from May 2023. This means that the amount of water reserve for hydro plants will be reduced compared to the period of 2021 – 2022. This opens more opportunities for thermal power plants. In the past, NT2's saleable output showed positive signs during the El Nino. In addition, the Brent oil prices may cool down in 2023, averaging USD85/barrel, which, when combined with the above factors, will help NT2 increase its competitiveness and mobilized power output.

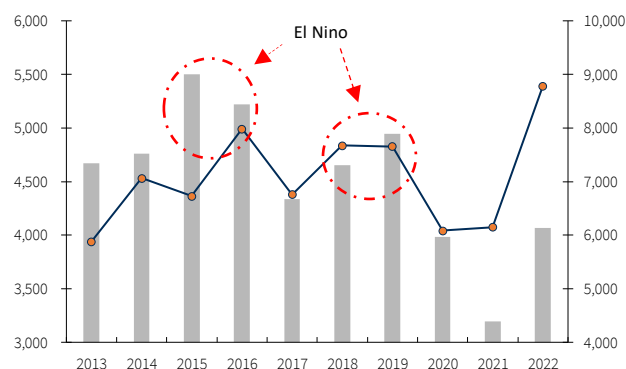
The Government targets to reduce greenhouse gas emissions from energy activities to 15% by 2030 and to 20% by 2045 (draft Power Master Plan 8). Gas-fired power plants have much lower CO<sub>2</sub> emissions than coal power plants of the same capacity. Therefore, electrification will be more focused in the near future to ensure energy security and protect the environment while renewable energy development in Vietnam has not yet developed, and hydroelectricity heavily depends on the weather.

Fig 3. Global – Weather pattern in 2023



Source: International Research Institute for Society and Climate, KB Securities Vietnam

Fig 4. NT2 – Saleable electricity output and sales (million kWh, VNDbn)



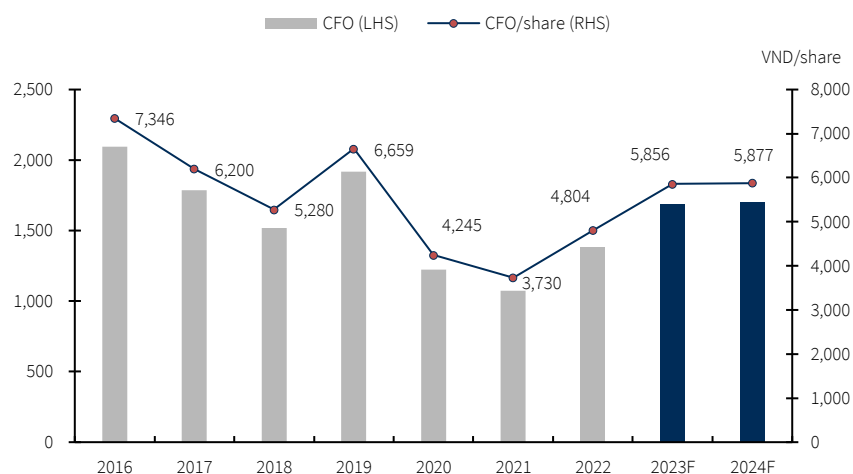
Source: PV Nhon Trach 2, KB Securities Vietnam

### NT2 stocks produce high dividend yields and are less affected by exchange rate differences

With strong operating cash flow and full repayment of long-term debts in 2021, NT2 can cushion its business results from exchange rate and interest rate difference.

NT2 has maintained a high cash dividend payout over the years. Dividend yields for 2020 and 2021 are 9.2% and 6.7% respectively. Previously, the dividend payout ratios were above 7%. We expect NT2 to continue to pay a high cash dividend for 2023. On the other hand, NT2's parent company, PV Power, is implementing Nhon Trach 3 and Nhon Trach 4 LNG projects with total investment of over VND30,000 billion in the period of 2022–2024. This should help NT2 raise its dividend yields.

Fig 5. NT2 – Operating cash flows



Source: PV Nhon Trach 2, KB Securities Vietnam

## Forecast & valuation

### NT2's 202E revenue and NPAT

We estimate NT2's 2023 revenue and NPAT would reach VND7,998 billion (-9% YoY) and VND731 billion (+0.2% YoY) respectively, based on the following assumptions:

- Saleable output may reach 3,859 million kWh (-5.1% YoY). The Qc output is almost flat compared to 2022. Despite high demand for electricity, we forecast a slight decrease in output compared to 2022 as NT2 will carry out a periodic overhaul in 100,000 EOH.
- Average input gas price is at USD9.25/MMBTU (-1% YoY), assuming Brent oil prices would drop slightly to USD85/barrel.
- Average electricity price on CGM is VND1,539/kWh thanks to higher demand from power sources with high input costs such as gas and coal power.

Table 2. NT2 – 2023E performance

VND bn	2022	2023F	YoY %	Note
Output (mil, kWh)	<b>4,065</b>	<b>3,859</b>	<b>-5.1%</b>	Output declines slightly due to a 45-day overhaul in 2023
Contractual output (Qc)	3,473	3,087	-11.1%	
Output sold on the CGM (Qm)	592	772	30.4%	Price in Vietnam competitive generation market (CGM) remain high, making it more favorable for NT2
Average gas price (USD/MMBTU)	<b>9.34</b>	<b>9.25</b>	<b>-1%</b>	Gas prices decreased slightly due to the assumption that the price of FO oil will decrease, Brent oil will reach 85 USD/barrel, lower than the average in 2022.
Average selling price (VND/kWh)	<b>2,161.38</b>	<b>2,072.62</b>	<b>-4.1%</b>	The average selling price decreased due to the decrease in gas price, which reduced the average PPA and CGM price
Revenue (billion VND)	<b>8,786</b>	<b>7,997.86</b>		Revenue decrease slightly due to lower selling price and consumption volume compared to 2022
Gross profit	<b>1,101</b>	<b>867</b>		
GPM (%)	<b>12.53%</b>	<b>10.8%</b>		
SG&A	330	83		
% SG&A / Revenue	3.8%	1.1%		
Profit from operating activities	771	780		
Financial income	24	77		
Financial expenses	18	76		
Other net income	1.15	1.15		
Profit before taxes	<b>779</b>	<b>781</b>		
Profit after taxes	<b>729.32</b>	<b>731</b>		
NPM (%)	8.3%	9.51%		

Source: PV Nhon Trach 2, KB Securities Vietnam

## Valuation

### HOLD recommendation, target price VND31,200/share

We use discounted corporate cash flow (FCFF) and EV/EBITDA methods with the ratio of 50-50 to give NT2 a HOLD recommendation with a target price of VND31,200/share, upside 10% compared to the closing price on February 27, 2023.

Table 3. NT2 – DCF model

$K_E$	15%	PV of Terminal Value	8,494
Risk-free rate	5.00%	PV of Free Cash Flows	0
Equity risk premium	10%	Total value of FCF and TV	<b>8,494</b>
Beta	1	Plus: Cash & ST investments	1,333
Cost of debt	7.00%	Less: Debt	-631
Corporate tax rate %	5.0-20.0%	Less: Minority Interest	0
WACC	13.6%-14.1%	Equity Value	<b>9,196</b>
Terminal growth rate	0.00%	No. of shares outstanding (mn shares)	287.9
		Value per share (VND)	<b>31,942</b>

Source: KB Securities Vietnam

Table 4. NT2 – Final valuation

Valuation method	Forecast price	Weight	Weighted price
FCFF	31,942	50%	15,971
EV/EBITDA (5.5x)	30,552	50%	15,276
<b>Target price (rounded)</b>			<b>31,200</b>
Current price (Oct 31, 2022)			28,500
Upside			10%

Source: KB Securities Vietnam





## KB SECURITIES VIETNAM RESEARCH

---

**Nguyen Xuan Binh – Head of Research**  
binhnx@kbsec.com.vn

### Equity

**Duong Duc Hieu – Head of Equity Research**  
hieudd@kbsec.com.vn

### Banks, Insurance & Securities

**Nguyen Anh Tung – Senior Analyst**  
tungna@kbsec.com.vn

**Nguyen Duc Huy – Analyst**  
huynd1@kbsec.com.vn

### Real Estate, Construction & Materials

**Pham Hoang Bao Nga – Senior Analyst**  
ngaphb@kbsec.com.vn

**Nguyen Duong Nguyen – Analyst**  
nguyennd1@kbsec.com.vn

### Industrial Real Estate, Logistics

**Nguyen Thi Ngoc Anh – Analyst**  
anhntn@kbsec.com.vn

### Retails & Consumers

**Pham Phuong Linh – Analyst**  
linhpp@kbsec.com.vn

### Oil & Gas, Utilities

**Nguyen Dinh Thuan – Analyst**  
thuannd@kbsec.com.vn

**Research Division**  
research@kbsec.com.vn

### Macro/Strategy

**Tran Duc Anh – Head of Macro & Strategy**  
anhtd@kbsec.com.vn

### Macroeconomics & Banks

**Le Hanh Quyen – Analyst**  
quyenlh@kbsec.com.vn

### Strategy, Chemicals

**Thai Huu Cong – Analyst**  
congth@kbsec.com.vn

### Strategy, Fishery & Textiles

**Tran Thi Phuong Anh – Analyst**  
anhhttp@kbsec.com.vn

### Support team

**Nguyen Cam Tho – Assistant**  
thonc@kbsec.com.vn

**Nguyen Thi Huong – Assistant**  
huongnt3@kbsec.com.vn

## KB SECURITIES VIETNAM (KBSV)

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### Head Office:

Levels G, M, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam  
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

### Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam  
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

### Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam  
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

### Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam  
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

## CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656  
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276  
Email: [ccc@kbsec.com.vn](mailto:ccc@kbsec.com.vn)  
Website: [www.kbsec.com.vn](http://www.kbsec.com.vn)

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### Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

### Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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